COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of Telecommunications and Energy on its own motion regarding the service quality guidelines established in *Service Quality Standards for Electric Distribution Companies and Local Gas Distribution Companies,* D.T.E. 99-84 (2001).	)	D.T.E. 04-116

INITIAL COMMENTS OF
WESTERN MASSACHUSETTS ELECTRIC COMPANY

I. INTRODUCTION

Western Massachusetts Electric Company ("WMECO" or "Company") appreciates the opportunity to provide comments to the Department of Telecommunications and Energy ("Department") on service quality guidelines for electric and gas distribution companies. As the Department stated in its Order opening its investigation, the three-year term of the guidelines established by the Department in D.T.E. 99-84 has ended and the Department will determine what changes, if any, are necessary to improve service quality. Order, p. 1. As WMECO indicates in its responses, below, certain changes to the Service Quality ("SQ") Guidelines are warranted.

Prior to addressing directly the topics the Department set out in its Order, WMECO would like to make two preliminary observations. First, WMECO reports SQ measures and benchmarks established by the Department for informational purposes. Pursuant to G.L. c. 164, §1E, binding SQ guidelines are to be promulgated for those

electric and gas distribution companies that have performance-based regulation ("PBR") plans, or have merger-related or acquisition-related rate plans. However, WMECO, like several other electric and gas companies, is not subject to either a PBR or merger-related plan. *See, e.g., 2002 Service Quality Reports for Electric Distribution and Local Gas Distribution Companies,* D.T.E. 03-10 through D.T.E. 03-23 (September 30, 2003), pp. 3-4; *2003 Service Quality Reports for Electric Distribution and Local Gas Distribution Companies,* D.T.E. 04-112 through D.T.E. 04-25 (October 25, 2004), p. 3.

Second, as part of a settlement approved by the Department WMECO has agreed to work with the Attorney General on SQ issues and expects to propose a SQ plan to the Department later this year.[1] However, these comments are solely WMECO's.

II. RESPONSES TO THE DEPARTMENT'S TOPICS

(1) Offsets: Currently, if an LDC incurs a potential penalty for substandard performance in a penalty provision measure, the Guidelines allow that LDC to offset that penalty if the LDC exceeded its benchmark in other penalty provisions. Please discuss whether the offset provision offers an incentive for an LDC to improve SQ and whether the use of penalty offsets should be continued in the future Guidelines.

WMECO believes that a penalty offset provision is appropriate and offers an incentive for an LDC to improve SQ. Therefore, the use of penalty offsets should be continued in the future. As explained in Section I, above, WMECO is not now subject to SQ penalties. It does, however, compare its results to the SQ Guidelines and strives to meet or beat the SQ Guidelines levels. WMECO has found that elements of some SQ metrics are largely beyond WMECO's control. For example, a series of ice storms in the

[1] The full text of the settlement language approved by the Department on December 29, 2004, in D.T.E. 04-106, reads: "The Parties agree that with acceptance of this Settlement by the Department WMECO and the Attorney General will work together on service quality issues, and agree to work on proposing a Service Quality Program to the Department by June 30, 2005, possibly with a system of penalties and rewards."

service territory will almost certainly degrade WMECO's SAIDI and SAIFI results regardless of WMECO's service restoration efforts.[2] The advantage of having offset provisions is that WMECO understands that by doing better than targeted in some areas, areas in which it may have more control over the outcome, WMECO can offset the less-than-optimal results in other areas. Understanding that particularly good performance in some areas can offset the less positive results in other areas (and, as stated, less positive results are inevitable periodically for certain SQ metrics given the variables involved) is a significant incentive to do as well as possible in areas under the Company's control.

In a similar vein, a company may install new systems which may negatively affect performance in initial phases although lead to enhanced service quality delivery in the long term. An example of this might involve the installation and development of a new customer information system. As with any new system, there is a learning curve, and it is quite possible that in the initial stages of the curve there will be dips in SQ. WMECO should not be precluded from offsetting these dips in performance, dips resulting solely from an effort by the Company to provide customers better service over time.

In addition to the incentive elements discussed above, an offset provision provides an important safeguard. It is a safeguard because the mathematical system of a one standard deviation deadband, while accepted by the Department in D.T.E. 99-84, has acknowledged flaws. The Department explicitly agreed in D.T.E. 99-84 that there will be a fairly high percentage of errors (that is, companies being subject to SQ penalties for random variations in performance) under the one standard deviation system, and explicitly agreed that offsets should be incorporated into the system in order to provide a

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[2] The Department has recognized that there may be random variations in service quality performance. *See, Service Quality Standards,* D.T.E. 99-84 (June 29, 2001), p. 28; *Service Quality Standards,* D.T.E. 99-84-B (September 28, 2001), p. 2.

certain level of safeguard against such an unwarranted penalties. D.T.E. 99-84, pp. 27-28. The need for the safeguard remains as compelling now as it did in 2001.

Accordingly, for the reasons stated above, penalty offsets should be incorporated into future SQ guidelines.

(2) Odor Calls: Currently, the benchmark for odor calls is 95 percent, which is an obtainable goal of all gas LDCs. Please discuss whether this benchmark should be strengthened in the future Guidelines and SQ plans and whether multiple calls regarding a single gas leak should be considered as a single odor call response.

The odor call metric is not applicable to WMECO as an electric company.

(3) Staffing Levels: G.L. c. 164, § 1E (a) requires the Department to establish benchmarks for staff and employee levels of LDCs, and G.L. c. 164, § 1E (b) requires that no company may reduce its staffing levels below what they were on November 1, 1997. However, the statute does not define what staffing levels are, *e.g.*, whether they apply only to union employees or to all employees; whether staffing levels should include employees of non-regulated subsidiaries of the LDCs; and whether the lapse in time (between enactment of the statute and adoption of a performance-based rate plan) negates the November 1, 1997 requirement. Further, the statute does not provide for any penalty for the LDCs that do reduce their staffing levels below 1997 numbers. Please discuss the role of staffing levels in the future Guidelines.

General Laws, chapter 164, § 1E(b), provides that a company that makes a "performance based rating filing after the effective date of the act" is subject to the labor staffing levels. WMECO has not made a PBR filing since the effective date of the Restructuring Act and is therefore not now subject to this provision. Regardless, the Department is quite right to examine this statutory provision in the context of SQ guidelines. WMECO believes that the goal of SQ is to deliver the best service possible to our customers. The goal is not to deliver the best service with some arbitrary number of employees. Another way of expressing this is that it is the results that are important, not the process inputs.

WMECO greatly values its dedicated work force but if the past few decades have demonstrated anything, it has demonstrated with emerging technologies a company can sometimes improve performance while maintaining a very lean staffing level. For example, WMECO has worked with its employees and its unions to implement efficiencies, such as automatic meter reading, and hopes to be able to continue those efforts. To the extent Chapter 164, § 1E(b), is interpreted in a contrary manner it is harmful to SQ improvements. Indeed, it would not be difficult to imagine a situation in which there was a technology available to improve SQ but it was not affordable to a company because of the cost of maintaining certain staffing quotas.

Therefore, WMECO believes that employee staffing levels should be viewed in the overall context of SQ. The number of employees is only one element of how a company performs in providing service to its customers. The statute recognizes this by allowing staffing reductions with the approval of the Department. G.L. c. 164, § 1E(b). It is the decline in SQ that should lead to an investigation by the Department, not whether one variable among the many that affect SQ has changed. Should the Department open such an investigation, the Department may inquire into the role of staffing.

Further, the Department has asked an important question in asking how staffing levels should be determined. As an initial matter, the statute does not distinguish between union and non-union employees. There is no requirement that a company must retain a certain number of union employees. As an additional matter, it is unclear how the number of employees of a company should be measured in a holding company framework. WMECO is an operating company in the Northeast Utilities system. In this framework, some staff are categorized as WMECO employees. However, there are

others that perform a centralized function such as law or accounting that are categorized as employees of the parent's service company. This is true even though among the latter group there are employees that spend all or virtually all their working time on WMECO matters. It would appear unfair to exclude certain staff from the definition of 'employee' at one company because the company was part of a holding company while treating others performing the same function at another company that was not organized as a holding company differently.

Given the important reasons for focusing only on the results of a company's SQ program and the unanswered questions relating to staffing levels, it should be clear to the Department that the inclusion of staffing levels in future SQ guidelines is unwarranted.

(4) Standardization of SQ Performance Benchmarks: In D.T.E. 99-84, at 3-4, the Department required that LDCs collect any data that may be necessary for the Department to revisit, in the future, the issue of using benchmarks based on nationwide, regionwide, or statewide data. The LDCs sent the Department a report on December 19, 2002 concluding that using the historical performance of each LDC on the respective performance measures remains the best method for establishing performance benchmarks. *Summary of Findings Related To Service Quality Benchmarking Efforts*, Navigant Consulting, Inc. (December 19, 2002). Please comment.

WMECO supports the conclusions reached in the Navigant Consulting report. Navigant's summary states:

> The focus of state regulatory agencies to date, with regards to the establishment of service-quality measures, has been focused primarily on standards for electric utilities…. The differences in definitions, data collection methods and data quality, geography, and distribution system design and configuration, however, each undermines the likelihood that such data would meet the rigorous standards needed to support use of *service-quality* benchmark data at this time. Many state and federal commissions recognize these limitations and the inherent differences among utilities and therefore have declined to adopt national standards, regional standards or standards developed in other states as a benchmark…. Attempts at this time to establish specific regional or national benchmarking efforts could produce questionable results due to

> differences in data quality, collection methods, system design, construction, geography and weather [p. 25].

As Navigant's comprehensive study suggests, the downside of generic benchmarking is likely to outweigh any benefits produced.

WMECO believes that the decision by the Department to use company-specific data was necessary to establish reasonable and appropriate benchmarks within WMECO for the comparison of future performance with past performance. If new generic benchmarks are established, the performance measures would be inconsistent with the way a company has measured or compiled data and would not be useful in calculating a company-specific performance benchmark. Generally, generic benchmarks would require another period of data collection, thereby requiring a system 'reset' and dramatically limiting the ability of the guidelines to identify deterioration in SQ for a period of years. In particular, WMECO believes that using company-specific historical performance is the most accurate way to forecast performance across the Company's service territory and identify reliable trends in performance, without numerous variables skewing the results. With the use of company-specific historical performance data, the only variable that remains is the impact of weather, and this can be mitigated with the adoption of the Institute of Electrical and Electronics Engineers, Inc. ("IEEE") 1366, Full Use Guide on Reliability, for Major Event Days (see response to question 10, below).[3]

(5) SQ Incentives: Please comment as to whether any LDC should be allowed to collect incentives for SQ performance. MECo and Nantucket Electric Company

[3] WMECO distinguishes between generic benchmarking between utilities and the standardization of definitions for utility performance measures. As indicated in the response to Question 10, below, it may be suitable, as with the adoption of IEEE 1366, Full Use Guide on Reliability, that WMECO supports, to adopt definitions for performance measures that apply to all utilities. That does not imply that results are comparable across utilities.

(collectively "MECo"), are allowed to collect incentives back from ratepayers if it exceeds its benchmarks in the penalty provisions. The Department approved incentives as part of MECo's SQ plan because MECo's prior SQ plan, pursuant to Massachusetts Electric Company/Eastern Edison Company, D.T.E. 99-47, at 13, 31-32 (2000), contained penalty/reward structures, and in consideration of the potential benefits to ratepayers. D.T.E. 01-71B at 24 (2001).

WMECO believes strongly that the MECo/Nantucket model is preferable and that LDCs should be allowed to collect incentives for SQ performance above benchmark levels. It is a matter of common sense that more effort will be expended if there is some reward as opposed to an endeavor in which the only result is the *status quo* or a penalty. As the joint comments of the utility companies in the D.T.E. 99-84 proceeding stated on December 3, 1999:

> The generic penalty framework established by the Department should include the reasonable opportunity for Utility Companies to be rewarded if reports on metrics indicate that service is above historical levels. Imposing penalties without corresponding rewards contributes to the confiscatory nature of the penalty system, since there is no regulatory symmetry or reasonable opportunity to make up for any losses relating to service-quality penalties that are imposed for random variations in reported data. Moreover, providing an opportunity for rewards establishes an unbiased system of carrots and sticks" for the Utility Companies to maintain reasonable levels of service. A symmetrical system of rewards and penalties would enhance the fairness and effectiveness of the Department's framework [pp. 15-16].

The Department has recognized that penalty offsets are appropriate in the SQ Guidelines. Conceptually, from that position it is a very small step to conclude that good performance should not be limited to offsetting penalties but should also be meaningful in a circumstance in which there are no penalties to offset. For example, should a company invest in expensive new systems to improve SQ, such as a new customer service system, there should be some regulatory acknowledgement and encouragement of the benefits that such expenditure brings to customers.

(6) Customer Service Guarantees: LDCs are currently required to pay $25.00 to any customer if they fail to meet a scheduled service appointment or fail to notify a customer of a scheduled outage. D.T.E. 99-84, at 38. Please discuss whether the future Guidelines should require (a) payment to customers whether or not the customer requests the credit; and (b) classification as a missed service appointment if the LDC contacts the customer within four hours of the missed appointment and re-schedules the appointment.

Under the current SQ Guidelines "Service Appointment" guarantees refer to:(1) failure to keep service appointments, and (2) lack of notification of planned service interruptions. If a distribution company fails to keep a service appointment, a scheduled service appointment is more than four hours late, or the distribution company fails to notify a customer of a scheduled outage, the utility pays the customer.

WMECO believes the Company should continue to make payments to customers whether or not the customer requests the credit when a scheduled service appointment is missed or more than four hours late. Appointments that are mutually rescheduled within four hours of the stated time should not be counted as missed appointments.

Failure to notify a customer of a scheduled outage is different. For example, at times when the Company fails to notify a customer of a scheduled service outage, the only way the Company may know that the customer was without service is when the customer notifies WMECO that service was out. The Company could not pay the customer without this contact.

WMECO believes that the $25.00 payment is reasonable as an incentive for the Company to keep appointments and as compensation to the customer for the Company's actions. The SQ Guidelines in this respect should remain unchanged.

(7) Property Damage: The Department established a reporting requirement regarding losses related to damage of company-owned property as it was likely to contribute to

assessing company safety performance. D.T.E. 99-84, at 17. Please discuss whether this reporting requirement should be made a penalty measure in the future Guidelines.

WMECO does not believe that damage to property is particularly relevant to the measurement of SQ for customers. Company property may be damaged for any number of reasons, and may or may not be within the control of the company. Damage to property falls within a category of factors, such as staffing levels and double poles, which has no apparent direct connection to SQ results. No link has been established, to WMECO's knowledge, between damage caused to company property and SQ performance. It is entirely possible, for example, that SQ could be exemplary in years in which there is property damage and not as good in years in which there is no property damage.

The Department has previously recognized, in D.T.E. 99-84, the infirmity of a property damage measure. The Department found that there is "neither data on which to base a [property damage] measure nor data on which to determine the effectiveness of such a measure" (p. 17). WMECO does not believe that anything has changed in the interim to warrant a change now in Department policy. Pursuant to the Department's order in D.T.E. 99-84, pp. 17-18, electric companies file annual damage reports of incidents involving property damage in excess of $50,000. No further requirement should be imposed.

(8) Line Loss: In D.T.E. 99-84, at 18, the Department acknowledged that an electric distribution company may experience percentage variations in line losses from year to year unrelated to SQ degradation. Please discuss whether line losses should be made a reporting requirement in the future Guidelines.

WMECO does not believe that line losses should be a SQ measure. Variations in line losses from year to year, or even month to month, are the result of fluctuation of

customer load and generation patterns. They are more attributable to the manner in which power flows on the system than factors within the LDC's immediate control. Construction projects selected to improve SQ are driven by reliability, obsolescence, and load requirements. Improvement of line losses is not the driver for projects that increase SQ, and should not be a measurement of the LDC's SQ.

The Department's conclusion on line losses in D.T.E. 99-84 is as telling now as it was then. The Department found that:

> [T]he Department acknowledges that an electric distribution company may experience percentage variations in line losses from year to year unrelated to SQ degradation. In fact, much of the annual variation in line losses stems from the effect of the electrical load on a system. Furthermore, the amount of load on a system is not entirely within the control of electric distribution companies. [Footnote 18 states: "Customers greatly influence electrical load of the system. For example, a regional economic downturn would likely cause a reduction of load on a system."] These factors make it difficult to reliably assess line losses at present time. Therefore, the Department declines to adopt a SQ measure for line loses at this time [p. 18].

The above reasons are dispositive but a further consideration is the timing of line loss information. System line losses are represented as the difference between System Delivered MWh and the sum of Company use and MWh energy sales. The percentage of line loss for WMECO is calculated by dividing the total loss in energy, in MWh, from Line 27 on page 401a of the WMECO FERC Form No.1, by Line 28, the total disposition of energy. At present, WMECO provides this information to the Department in its SQ Filing submitted on March 1st of each year. The information for this calculation is taken from the FERC Form No.1 that is dated April 30 of the current year, representing data for the prior year (this information is also available in the MA Form 1 filed at approximately the same time). The FERC Form No.1 information is not reported until April of the year

following the year the energy is delivered. This illustrates that under the present reporting format, the line loss information is not timely, as would be highly preferred for any SQ measure.

(9) Double Poles: G.L. c. 164, § 34B requires electric distribution and telephone companies engaged in the replacement of an existing pole to remove the existing pole from the site within 90 days after the date of installation of the new pole. Please discuss whether it would be appropriate to include timely removal of double poles as an SQ measure.

WMECO does not believe that data relating to double poles should be a SQ measure. First, the number of double poles is not a relevant measure of SQ. SQ may be exemplary in a year in which there are a larger number of double poles and not as good in a year in which there are fewer double poles. WMECO is unaware of any link between the number of double poles and SQ. In fact, it may be posited that a narrow focus on a double pole standard could siphon off needed utility resources from SQ efforts. Second, even if the Department wished to establish a standard for double poles, the dynamics of the double pole problem, one that involves many third party attachers, makes it extremely difficult to develop a meaningful SQ metric.

Further, WMECO files a semi-annual Double Pole Report with the Department pursuant to the Department's investigation in D.T.E. 03-87, in which the present status of double pole removal is given as well as discussion of internal initiatives undertaken to eliminate the backlog of double poles. WMECO and the other Massachusetts utilities utilize the PLM System, maintained by Inquest Technologies, to notify attachees when it is their turn to transfer their facilities, and to notify the responsible remediating party when all the transfers have been completed and the old pole can be removed. The PLM System has reporting capabilities which enable the utilities to monitor the current status

of all double poles in its service territory. This system is working well and no connection to SQ is warranted.

In sum, WMECO recommends that the utilities continue to report their progress on double poles within the existing regulatory requirements. Double poles should not be the subject of a SQ standard.

(10) SAIDI/SAIFI: In D.T.E. 99-84, at 13, the Department accepted as penalty provisions SAIDI and SAIFI. The Department allowed electric LDCs to use their own company specific definitions for "sustained outages or interruptions," "momentary outages," and " excludable major events," to establish benchmarks for SAIDI and SAIFI performance standards. Please discuss whether it is appropriate to develop new definitions for these subjects.

WMECO believes the measurement of SAIDI and SAIFI can be improved upon by adopting the industry standard definitions contained in IEEE 1366, Full Use Guide on Reliability ("IEEE 1366"). These definitions vary from the definitions the electric distribution companies were directed to use in D.T.E. 99-84, Attachment A.

Pursuant to D.T.E. 99-84, the current definitions are as follows:

- Sustained Outage/Interruption definition means an outage or interruption of electric service that lasts at least one minute and is not classified as a momentary outage.

- Momentary Outage/Interruption definition means an outage or interruption of electric service of less than one minute.

- Excludable Major Events definition means a major outage event that in an operating area; or (iii) an event that results from the failure or disturbance of a transmission, power supply, or other system that is not owned or operated by the electric distribution company. Notwithstanding the foregoing criteria, an extreme temperature condition would not constitute an Excludable Major Event.

WMECO believes that the Sustained Outage and Excludable Major Events definitions should be changed or replaced because they are not consistent with industry

standards, in particular with IEEE 1366. With respect to Sustained Outage/Interruption, the current Department definition is too short in time duration. Many automatic loop schemes have cycle times greater than 60 seconds. Such an outage would thus be considered a Sustained Outage when it really is only a Momentary Outage and should be categorized as such.

In addition, the definition of an "Excludable Major Event" is not properly calibrated. On one side, certain snow storms have qualified as an Excludable Major Event because the Governor has declared a state of emergency, but few if any of WMECO's customers experienced service interruption. On the other hand, WMECO has experienced severe, multi-day weather events requiring mutual aid support over large parts of its service territory that were not excludable under the above definition. WMECO, recommends the adoption of the IEEE 1366 standard to define a Major Event Day, which would replace Excludable Major Event. A Major Event Day recognizes that there are events beyond a utility's ability to reasonably respond, events in which normal operations are affected and assistance is required.

Another benefit to adopting the IEEE 1366 Guide is the standardization of reliability measure calculations while allowing for service territory diversity. This allows the Department to understand the metric and its relation to the specific distribution company with respect to historical data and individual company operating conditions, such as geography, population density and weather differences. WMECO recommends the Company continue to report SAIDI and SAIFI, which are measured and included in the penalty provision, and report CAIDI for informational purposes only, pursuant to IEEE 1366.

III. CONCLUSION

WMECO respectfully requests that the Department consider WMECO's comments and looks forward to participating further in the Department's consideration of SQ guidelines. In addition, as stated above, WMECO will be working with the Attorney General on a proposed SQ program for submission to the Department later this year.

Dated: March 1, 2005